

This record is a partial extract of the original cable. The full text of the original cable is not available.

040506Z Apr 06

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000456

SIPDIS

SIPDIS

STATE FOR EAP/MLS; PACOM FOR FPA; TREASURY FOR OASIA:AJEWELL

E.O. 12958: DECL: 12/08/2015

TAGS: [ECON](#) [PGOV](#) [BM](#)

SUBJECT: WAGE INCREASE DOES NOT APPEASE CIVIL SERVANTS

Classified By: Econoff TLManlowe for Reason 1.4 (b,d).

1. (SBU) Summary: Just three days before its annual military showcase on Armed Forces Day, the government announced a significant increase in public sector wages: a 400% jump for the lowest civil service positions and 1,167% for senior levels. Workers will receive the raises at the end of April. Calculated to appease civil servants disgruntled by the forced relocation to the GOB's costly new administrative capital, the announcement caused consternation instead as prices rose and the kyat plunged in value. Regime intervention halted the slide temporarily, but rumors about new tax increases, reductions in fuel subsidies, and suspicions that the GOB will print more money to cover the cash shortfall have angered, rather than assuaged, the intended beneficiaries of the pay raise as everyone braces for spiraling inflation. End summary.

2. (C) We obtained a copy of an official GOB notification dated March 24, signed by Minister of Finance and Revenue Maj. General Hla Tun, that announces salary increases for civil servants. The GOB has not yet publicly released the notification, which begins by noting that the military (Tatmadaw) "cares for the people." The text is brief, and includes a table listing former and new pay scales for twelve ranks of employees. The lowest paid office worker, who currently earns \$2.43 per month at the market exchange rate of K.1235/\$1, will receive the equivalent of \$12.15 per month, a 400% increase. The highest paid career positions, Director Generals and Managing Directors, will see an increase over 1,100%, from \$12.15 per month to \$153.85. Senior General Than Shwe's new official monthly salary is \$972, Vice Senior General Maung Aye's is \$810 and General Shwe Mann's is \$648. Daily wages earners will see their pay rise from \$.08 to \$.40 per day, based on the current market exchange rate.

3. (C) The new salary rates apply to approximately one million civil servants, and begin with April's salary, paid at the end of the month. The statement notes the Defense Council of the Ministry of Defense will need to approve before the country's over 400,000 military members receive the same pay raise. The most recent public sector salary increase was in March 2000, and before that, March 1989.

Pressure on Prices and Currency

4. (SBU) As news of the wage increase spread during the last week of March, shopkeepers raised prices in anticipation. Rice prices increased by 5%, and other basic consumer goods, such as condensed and evaporated milk (up 11%), margarine (10%), milk powder (9%), toothpaste (8%), soap (8%) and canned fish (7%), also rose significantly. On March 29, the Mayor of Rangoon and Chairman of Yangon City Development Committee (YCDC), Brig. General Aung Thein Linn warned merchants and wholesalers not to take advantage of the senior leadership's "goodwill gesture" by raising prices. According to business contacts, he then set ceiling prices for gold and the informal "gray market" dollar exchange rate (K.1250), and threatened to take action against those who increased prices and "cause destabilization." Shopkeepers tell us that uniformed members of the YCDC regularly survey local markets, but retailers usually do not admit to them the high prices they actually charge.

5. (SBU) Compared with the exchange rate of K.1150/\$1 on March 25, the day before news of the wage hike spread, the kyat had depreciated 4.4% by March 26, and by 11.3% by March 28. According to currency traders, on March 28, the GOB intervened in the exchange market to stem the fall. Unlike currency interventions in other countries, the GOB's intervention was more authoritarian: policemen from the Bureau of Special Investigations in civilian dress detained several Rangoon money changers. One currency trader told us his friend had to pay officials \$1000 to gain his release. The rate climbed back to K.1240/\$1 the next day, and has hovered at K.1235-1240/\$1 since the police intervention.

Pressure on Government Coffers and Production

16. (SBU) Assuming an average \$24 per month increase at current market exchange rates, the GOB must find an estimated \$432 million annually to fund the new pay scale. Business contacts, other diplomats, and local employees have heard intense speculation about new sources of GOB income, ranging from a further reduction of the government fuel subsidy, which could raise prices by 67% per gallon, to an increase from 10% to 25% on the tax that foreign exchange earners, including employees at most embassies and foreign firms and those who rent houses and sell cars to foreigners, now pay. Many expect to see public employee in-kind benefits decrease, as well as new tax increases when the government releases its budget for the new fiscal year that began on April 1. Almost everyone predicts that the government will have to print more banknotes to make these payments, further eroding the value of the kyat and fueling more inflationary pressures.

17. (C) The GOB may have hoped the pay raise would calm some of the resistance its civil servants have shown to moving to their new administrative capital near Pyinmana. Government service, while offering some special benefits, pays salaries a pittance of those in the private sector, and the GOB needs to attract new workers. Many civil servants operated businesses or provided services on the side to supplement their salaries in Rangoon. A number of civil servants have quit, retired, or used excuses of age or illness to escape duty in Pyinmana. Some, according to contacts, have left Pyinmana without permission, while others simply don't show up for work, and await government action against them. Since the GOB forbade families to move with employees in the initial rush to Pyinmana, civil servants must find a way to cover the added costs of maintaining and traveling between two residences, as well as the loss of their side businesses.

Pressure on Political Parties and the People

18. (C) P/E Chief met on March 30 with NLD Chairman U Aung Shwe and Secretary U Lwin, who described the massive wage increase as "absurd." They said that the mere rumor in late March of an increase had an instant inflationary impact, leading to rice and fuel price increases that weakened the NLD's social welfare programs for families of political prisoners and other vulnerable populations. "The regime's actions expose the lunacy of their treasure chest management," said U Aung Shwe, adding that while SPDC revenue streams are largely unknown, it was clear that authorities would have to print more money to support new salary expenditures.

19. (C) U Lwin said that civil servants, already suffering poor morale over the relocation of the capital to remote Pyinmana, were widely displeased with the news of salary increases, knowing that subsequent inflation would only erode their diminishing purchasing power. U Aung Shwe observed that the political impact of the regime's further economic mismanagement "could eventually be greater than it was in 1988, when dissatisfaction over economic issues evolved into the pro-democracy uprising."

10 (C) Comment: Low government salaries have fueled corruption and forced civil servants to pursue rent-seeking opportunities or secondary employment to supplement their meager paychecks. Public sector employees, the intended recipients of the GOB's "goodwill", understand economics well enough to realize that empty government coffers mean that the government can only print money to pay the higher salaries. The broader urban population also understands economics well enough to know that printed money with nothing backing it is worthless. Thus the inflationary spiral takes off. The public understands these matters better than the military decision makers. Public dissatisfaction will no doubt increase, but it is not clear how that dissatisfaction will manifest itself. End comment.

VILLAROSA